

SRI LANKA UPDATE | 12 - 18 MAY 2023

The Economy:

[International Monetary Fund \(IMF\) states the Extended Fund Facility \(EFF\) is opportunity for Sri Lanka to get onto the right path](#) - The IMF Director of the Asia and Pacific Department Krishna Srinivasan stated that the EFF programme encourages all Sri Lankans to come together and work through this crisis to restore economic stability and place the nation on a road toward sustainable prosperity. Srinivasan further stated that the country's ongoing predicament is a result of prior policy blunders and consecutive economic shocks and focus should be given to supporting the poor and vulnerable groups.

Further, the IMF's corruption-busting governance diagnostic report [will outline steps to strengthen the island nation's governance system](#) and is targeted for completion by September. [Senior Mission Chief Peter Breuer highlighted that the IMF and Sri Lanka are regularly communicating over plans for domestic debt restructuring.](#) For a defaulting country to make its debt "sustainable," the IMF specifies a macroeconomic framework, to which the country must adhere to.

The [IMF predicted Sri Lanka's GDP contracting by 3 percent in 2023](#) prior to a gradual slow recovery by 1.5 percent in 2024. It cited the weak external environment and domestic policy tightening aimed at restoring macroeconomic stability, insisting however that the outlook critically depended on the implementation of economic reforms.

[Port City set to boost Sri Lankan economy](#) - As the first multi-currency Special Economic Zone for service export in the region, Port City Colombo is about to observe its peak level of activity. The five-year roll-out plan calls for USD 5.6 billion in Foreign Direct Investment (FDI), which is aimed to hasten Sri Lanka's economic recovery and establish Port City and Sri Lanka as major players in the service export market. Port City Colombo will play a vital role in driving Sri Lanka's next phase of growth and contributing significantly to the Gross domestic product (GDP) and Balance of Payments (BOP) of the nation. According to CHEC Port City's Deputy Managing Director, the goal is to boost the country's competitiveness in the area and propel the future economy by luring more green-field FDIs into important industries.

[Worker remittances improve in April](#) - The Minister of Labour and Foreign Employment states the remittances by migrant workers improved in April 2023 compared to the inflows experienced in April 2022. April 2023 saw an increase to USD 454 million from USD 248.9 million in April 2022, which is an increase of 82.4 per cent. However, the inflows in April 2023 saw a modest decline compared to the workers' remittances in March 2023, which totalled USD 568 million.

[Rupee appreciates further against USD](#) - The Sri Lankan Rupee has appreciated further with the selling rate of the US Dollar decreasing from LKR 318.79 to LKR 316.18. The buying rate decreased from LKR 305.43 to LKR 302.42. Additionally, the value of the rupee has increased dramatically compared to other currencies, notably the Gulf.

[Sri Lanka Tourism looking at additional developments](#) - The second roadshow is being launched in many Chinese cities as Sri Lanka Tourism intensifies its attempts to entice more Chinese tourists during the shoulder season. A delegation led by the Minister of Tourism and the Head of the Sri Lanka Tourism Promotion Bureau, will participate in the Guangzhou International Travel Fair (GITF) and hold roadshows in Kunming, Beijing, and Shanghai among other potential cities.

According to the Minister, they will also meet with China Southern Airlines' top executives to discuss restarting service to Sri Lanka.

[The Sri Lanka Tourism Development Authority predicted that by end May, there will be half a million visitors to the island nation.](#) Total tourism to Sri Lanka reached 477,277 until 14th May and from 01st to 14th May. Further Sri Lanka has been included [among 13 the safest countries to travel to in 2023 by 'Worldpackers'](#) a global website that connects travellers with hosts from across the globe, who need assistance in areas of housekeeping, bartending, and farming.

Politics & Policy:

[Government gazettes Parliamentary Budget Office Bill](#) - A bill to establish a Parliamentary Budget Office (PBO), an independent entity answerable to Parliament, has been gazetted by the government. Based on the suggestion made by President Ranil Wickremesinghe, the Cabinet approved the proposed Bill in April. The PBO's objectives are to support Parliament in carrying out its public finance obligations under the Constitution and any recognized political party or independent group by providing an unbiased analysis of the budget, the medium-term economic and fiscal outlook, and the cost implications of proposed policies from a financial, revenue, and expenditure perspective.

[Cabinet approves State Enterprise Restructuring Policy](#) - A State Enterprise Restructuring Policy was authorized by the Cabinet to bolster government finances, lessen the overall load on the economy and foster a more favourable business environment. By lessening the financial burden placed on the Treasury by such firms, the strategy seeks to increase the standard, cost, and accessibility of the goods and services offered by public enterprises. It also seeks to attract private investors by fostering a competitive and market-based business environment.

[Ceylon Electricity Board \(CEB\) submits proposal to revise electricity tariffs to Public Utilities Commission of Sri Lanka \(PUCSL\)](#) - The proposal from the Ceylon Electricity Board (CEB) to modify power pricing on July 1 has been handed over to the Public Utilities Commission of Sri Lanka (PUCSL). The action was taken when PUCSL Chairman urged an immediate 20 per cent reduction in power cost, citing a decline in demand, a decline in the value of the dollar, and a decrease in fuel prices as strong arguments in support of such a move. He further claimed that the CEB had filed the proposal in accordance with the Government's policy decision and the tariff-filling procedures to change the rates on a biannual basis, on the first of January and the first of July.

[Cabinet approves the State Owned Enterprise Reform Policy](#) - The State Owned Enterprise Reform Policy received approval from Cabinet. The policy is aimed to bolster public finances and promote economic recovery. According to the Cabinet spokesman, the strategy would turn state-run businesses into profit-driven organizations and not strain the nation's finances. He further stated that the reform of state-owned enterprises is crucial for improving financial conditions, economic variables and balance of payments.

[President in a fresh bid to restart Western Province Municipal Development Plan](#) - President Wickremesinghe stated that a Cabinet subcommittee would be constituted to implement the Surbana Jurong plan for the development of the Western Province and a new agency would be established for this purpose. He emphasized the importance of official city development plans for comprehensive development in the Western Province, warning that unplanned growth may spiral out of control. Since the Western Province accounts for 50 per cent of the national economy, its growth is essential for the country.

WHAT YOU NEED TO KNOW



[Sri Lanka to boost collaboration with Bangladesh in shipping and maritime sectors](#) - The Minister of Ports, Shipping and Aviation and the State Minister for Foreign Affairs held discussions with Khalid Mahmud Chowdhury, the State Minister of Shipping in Bangladesh strengthening cooperation through new initiatives in the shipping sector. Considering that 40 per cent of Bangladesh exports, primarily apparel bound for Western Europe and the USA, are shipped from Chattogram via the Port of Colombo, the Minister of ports expressed appreciation for the long-standing friendship between the two nations and emphasized the significance of shipping connectivity as one of the key areas chosen for bilateral collaboration.

[Government declares annual Industrial Exhibition Week to boost industrial sector](#) - The Government will organise an Industrial Exhibition Week annually in an effort to promote, support and grow local companies as well as attract international investors and industrialists. The Cabinet endorsed the proposal by the Minister of Industries. The manufacturing industry provides 15 per cent of the GDP, whereas the industrial sector as a whole, accounts for 28 per cent of GDP. At the post-Cabinet meeting media conference, Cabinet Co-Spokesman stated the Government has plans to increase these percentages to 30 per cent and 25 per cent respectively, by 2030.

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This Advisory, written for our partners interested in developments in Sri Lanka against the backdrop of the current crisis, is an update on the one issued last week. This document summaries developments covering significant political and economic events. The Advisory includes economic, political, social and governance perspectives. It draws on news reports, analyses, Government announcements and documents, and from other sources that we may be in contact with or have access to.

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